

March 2011

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National Interest
Review

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THE ISSUE OF REVOLUTION

JUST 140 CHARACTERS

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DEBATING CONSTITUTIONAL MORALITY

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THE INDIA-US LOVEFEST

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SET THE RUPEE FREE

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THE GOODNESS OF MIGRATION

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Pragati

The Indian National Interest Review

March 2011

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Mubarak must go!

Photo: Nick Bygon

The twists in the Middle Eastern revolutions

Despots might be out, but the ruling establishment is still in

foreign affairs

Many followed the dramatic scenes in Tunis and Cairo on their televisions, computers and smartphones. Newspapers in the Arab world have asked the question, “are we next?”

The uprisings in Tunisia and Egypt were the first of their kind in the Middle East. Popular revolts in the past have invariably been either Islamist or nationalist—Egypt (1952), Iraq (1958), Iran (1979), and of course, the “intifadas” in the Palestinian territories. In Tunisia and Egypt, however, the protests focused on social issues, with unemployment and food inflation being the most prominent. Islamic groups lack large scale support in Tunisia, and while the Muslim Brotherhood (MB) enjoys wide popularity in Egypt, it chose to watch the uprising in Cairo from the sidelines.

Although the impetus to the movements was given by social media platforms like Twitter, protesters displayed a capacity to sustain them even after Internet services in Egypt were shut down. The movement brought Cairo’s youth out onto the streets, and with it came banners and signboards replete with “dot-com” paraphernalia. One banner cleverly represented each letter of the word “Egypt” with a symbol of the Internet era (for instance, “E” was represented by the Internet Explorer logo, “G” by Google, “Y” by Yahoo!, and so on). But the challenge for any government—democratic or otherwise—is to understand what the people’s fundamental demands are, and then translate them into actual policy to redress grievances. This is, of course, assuming that the people’s demands were essentially similar and didn’t change over the course of the uprising. We know that this may have not been the case—after all, what

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started out as a movement against the maligned police forces, morphed into a campaign to oust the state's most visible figure, Hosni Mubarak.

In its enthusiasm to support the mass social movement in Egypt, the world failed to appreciate the history of post-colonial Egypt, the Mubarak regime and its support structure. Mr Mubarak, like his predecessors, Naguib, Nasser and Sadat, is a product of the military-security structure that has dominated post-colonial Egypt since 1952. Even as Mr Mubarak transitioned power to his vice president Umar Sulayman and deputy prime minister Muhammad Tantawi (as indeed General Naguib did, albeit under coercion, to General Nasser) the military-security apparatus' hold over Egypt will likely remain. Indeed, the jubilation on the streets of Cairo after the army's take-over indicates that democracy and freedom became lesser issues than the people's desire to see the last of the man they blamed for Egypt's social and economic ills.

In this regard, the United States erred in continuing to push for Mr Mubarak's expeditious exit after he announced his decision to withdraw from the presidential elections in September 2011. With Mr Mubarak "gone," and calm restored to the streets, the regime is unlikely to be under pressure to institute meaningful, time-bound democratic reform in Egypt. Mr Mubarak's resignation was a nominal compromise, which many in the military-security structure hope will ebb domestic and international pressure (and with it, hopes for real democratic transformation). For Egypt's youth, overthrowing the regime was the easy part. Sustaining that pressure over the long-term to ensure political and social change will be the challenge. As Vikram Sood, former chief of the Research & Analysis Wing and senior fellow at Takshashila, noted "social network sites may help bring down a government...but they cannot govern."

It is hard to predict how Egypt's political landscape will be transformed, post-Mubarak. Egypt's opposition parties have been incapable of providing an alternative voice to the regime; they are badly organised and poorly financed. Opportunities for real "grass roots" movements existed during the 2005 presidential elections, but were not exploited. The result was a discombobulation of the opposition and a huge victory for Mr Mubarak. Mohammad ElBaradei, former director-general of the International Atomic Energy Agency and now an Egyptian politician, may have the backing of both the MB and the United States but has

low credibility among the Egyptian public. Many are not even aware of who Mr ElBaradei is—unsurprising, as he has spent the last 20 years living outside Egypt.

Whatever the results of the presidential elections in September, it is likely that the military-security apparatus that sustained Mr Mubarak will continue to wield influence over matters of the state. Field Marshal Tantawi himself is often derided for being a Mubarak loyalist. But while Mr Mubarak was able to provide a sense of stability to Egypt, his successors are likely to find this challenging. This would, in turn, require the military to assert itself more overtly in the political landscape, as its ultimate guarantor of order. In this regard, Egypt may go the route of Turkey, but will be a far more turbulent polity. This instability will negatively impact the West's interests in the region. It is therefore conceivable that the United States may not be as forthcoming in support of future popular uprisings in allied Middle Eastern countries.

The military-security apparatus in Egypt will continue to wield influence over matters of the state.

Proponents of democracy, though, need not lose hope. Reforming the political system from within is a model that has yielded results. This requires sustaining pressure on the region's regimes to institute legislative reform, expand suffrage and ownership in decision-making. Undoubtedly, this is a slow, and perhaps frustrating process, but it is the only model that has shown signs of success—in Kuwait (where political contestation is now part of its participatory culture), Bahrain (where the monarchy's power is balanced by an elected parliament), and Oman (where suffrage was extended to women in the advisory Shoura Council). The United States can continue to assist by maintain pressure on Arab states to democratise and reform. By the same token, Arab youth can play a far more constructive role by using social media platforms to disseminate information, raise public awareness and maintain pressure for social, economic and political reform in the long term. ■

A revolution in 140 characters

Tunisia, Egypt and the power of social media

foreign affairs

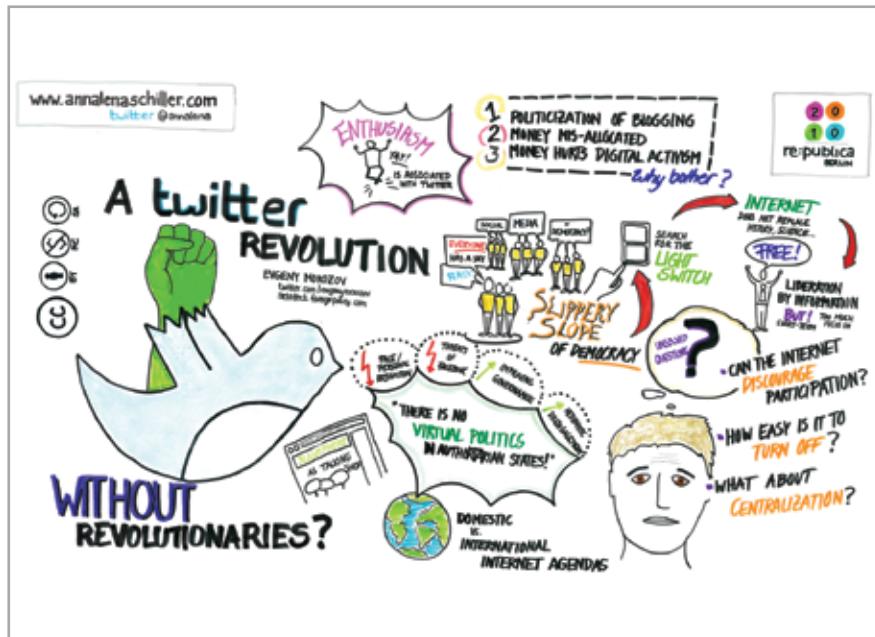


Photo: Anna Lena1 Schiller

Egypt has disposed of its dictator, soon after Tunisia handed out similar treatment to its own. The dizzying pace of these developments left many too shocked to comment, even as journalists scrambled to follow and write up the latest news.

A question that is making the rounds is, "Why now?" A part of the answer seems to be—to the surprise of many—social media.

The Tunisian protests were sparked by the suicide of Mohamed Bouazizi, an unemployed university graduate whose makeshift vegetable stall was shuttered by the police. The hopelessness of the economy, high level of unemployment and widespread corruption that seem to have driven Mr Bouazizi to suicide, resonated with the public. The resulting protests spread from city to city, gathering strength from the public. Tunisia's president, Zine el-Abidine Ben Ali, tried to pacify the protesters—by ordering the security police to stop using live ammunition, cutting food prices, promising a freer media and, finally, offering new elections within six months. The masses would have none of it—Mr Ben Ali was forced to flee to Malta. He is now in Saudi Arabia, where he has been granted political refuge.

The success of the Tunisian revolution inspired the citizens of Egypt—another dictatorial regime—to take to the streets, protesting against

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poverty, corruption, and the autocratic rule of President Hosni Mubarak. Hundreds of thousands of protesters assembled at Tahrir Square in Cairo, which became the focal point of the uprising. Mr Mubarak too tried to pacify the protesters, promised that he would not run for another term, but insisted on staying in power till September 2011 (until the next elections), to ensure a smooth transition. The protesters were not placated, possibly due to the memory of similar false promises made in earlier years. The protests withstood the onslaught of pro-Mubarak crowds and, about 18 days after the protest started, Vice President Omar Suleiman announced that Mr Mubarak had stepped down and that he had handed power to the army.

Social media as the new weapon

Media experts have been quick to emphasise the role played by social media in the two uprisings. Recent years have seen a massive rise in the adoption of social networking and online publishing tools such as Facebook, Twitter, Yfrog, and YouTube. They have helped put the power of words, visuals and sound into the hands of ordinary people, allowing them to raise issues of concern and engage in citizen journalism—even as they drop in a note about what they had for breakfast.

The protesters in both Tunisia and Egypt extensively used Twitter, Facebook and other tools to mobilise and broadcast events to the rest of the world. While some commentators have attributed the success of the protests to the power and reach of social media, calling the revolt in Tunisia the “Twitter Revolution”, others have taken a more cautious stand. The specifics may vary, but there is no denying that the successful protests in Egypt and Tunisia have been tremendously bolstered by the use of social media.

In Egypt, the protesters used Twitter and Facebook to inform supporters about plans to assemble at various public squares, raise public morale, as well as to inform contacts in other countries of happenings in Cairo. Mr Mubarak unwisely tried to rein in the surge of online activism by unplugging Egypt from the internet, but this step only served to infuriate the citizens. To counter this crackdown, engineers from Google, Twitter and SpeakNow devised a solution that allowed tweets to be made via voicemail. Named “Speak To Tweet”, it was used to post over 3,200 tweets in the last two weeks. Another service, “Alive in Egypt”, proceeded to transcribe and translate the voice-mail tweets. There was similar but less dramatic online coverage during the Tunisian revolution.

Where does this go?

The “Twitter revolution” has two important connotations. The first is the straightforward claim that Twitter, and by extension, other social networking services, were the major players in the course of the events that unfolded. Doubtless, social media had a crucial role to play, but to brand the movement as the “Twitter Revolution” is excessive—after all, these revolutions were initiated by disillusioned, disenfranchised citizens, and were several years in the making.

The second, more subtle, association is between the demography of the protesters, and their association with the online world. A casual observation shows that majority of the protesters were youth who didn’t have much opportunity for progress, and, incidentally, were familiar with the internet. The internet contributed to the views of the youth, who were introduced to the power and potential of a democracy through news and sharing from other countries on the Web. This association appears to withstand scrutiny.

Internet censorship as a means of control is no longer viable.

India is no stranger to internet censorship, albeit not at the level as seen in countries such as China and those in the Middle East. Over the years the Indian government, through the Department of Telecommunications, has tried to regulate access to online material and discussion forums for various reasons—and often at a moment’s notice. Continuing this practice without grounding it with a coherent policy framework would have the adverse effect of alienating tech-savvy citizens. It will also act as a means to announce that the government stifles free speech and, in the process, “showcases” its belief in the archaic policy that internet censorship is a viable means of control. If the recent events are anything to go by, it should be clear that internet censorship does not work.

The government should instead use the internet as a medium to publicise its viewpoint on issues under debate, and even use it as a propaganda tool. Information warfare is not always about subversion—it can well be used for persuasion. ■

When constitutionalism fails

Don't turn up your nose at unconstitutional methods

politics



Photo: Vishal Dutta

“ *I* would remind you that extremism in the defence of liberty is no vice.”

These words were spoken by Barry Goldwater when he was chosen as the Republican Party’s candidate for the 1964 United States presidential election. His view advocating “extremism in the defence of liberty” can be dismissed as too radical a dictum to be taken seriously in the realm of politics in constitutional, democratic republics. Indeed, self-described constitutionalists and concerned citizens alike decry extremism and agitational politics of any sort. Advocating this is a sure way to be branded a political untouchable by a section of the intelligentsia.

However, history tells us that there are times when constitutionalism and rule of law can fail in democratic republics too. Indeed, it is immoral not to use extremism to defend liberty when push comes to shove.

Economist and philosopher Milton Friedman wrote in his classic *Capitalism and Freedom* that economic freedom is a necessary but not sufficient condition for political freedom, which is defined as the absence of coercion of an individual by other individuals. In economic systems where the government is the only entity that can raise financial capital via taxes, and capital formation is concentrated in the hands of those wielding political power, it is easy for political freedom to be hijacked even in democratic republics.

RAJEEV MANTRI

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India witnessed such a suppression of economic freedom in the decades following independence, and this made a mockery of our republic's constitutionally-guaranteed political freedom. Bank nationalisation in 1969 cemented political control over the entire financial system. Opposition parties routinely had to compete with an incumbent government that not only had a sprawling, well-oiled and well-funded electioneering machinery in every nook and cranny of our vast geography to complement its stranglehold on capital formation, but also routinely used public institutions unconstitutionally and illegally, with impunity, to beat back political opposition. The use of All-India Radio, which had monopoly over the air waves, for political campaigning is but a small example.

But Indian politics remained "constitutional" through nearly three decades after independence until 1975, when an arrogant government led by the Congress party suspended democracy and imposed a state of Emergency, perturbed at the indictment of the prime minister by a court for election fraud and misuse of state institutions for electioneering. Ironically, constitutionalism by citizens and political opponents precipitated a high-handed, arguably unconstitutional action by the government.

Those whose solemn duty it was to protect the Constitution themselves became its principal abusers. When the great singer Kishore Kumar refused to perform at a public function at the behest of the government, his music was promptly outlawed—such was the attitude and temerity of those wielding political power.

Once the Emergency was lifted in 1977, Indian voters conclusively threw out the incumbent and installed a coalition government for the first time since independence. It was at this time that the idea that a non-Congress Union government can be formed took root. Economic liberalisation in 1991 marked the launch of competitive electoral politics, with the rise of several regional parties and a second national political force.

Today, after two bursts of economic reforms, there has been sufficient capital formation to ensure that situations that arose in earlier decades won't arise again. Notably, the Atal Behari Vajpayee-led Bharatiya Janata Party coalition, as the first non-Congress government to complete a full term in office, can also credibly claim to be have been the most economically liberal. Though it rode into office on the back of a mass, mob-like agitation that could easily be characterised as unconstitutional and unlawful, the Bharatiya Janata Party used extremism in defence of liberty.

Their means may have been morally tenuous but served a far greater good. Taking a more cynical view, the non-Congress parties might have realised the necessity of kindling economic freedom to encourage capital formation for their own long-term sustenance, not just for the advancement of India's citizens.

What happened in politics also happened in the business world. Starting in 1977, a petrol pump attendant named Dhirajlal Hirachand Ambani turned to India's embryonic capital markets to fund the expansion of his business. Given that banks had been nationalised in 1969, he may have found it impossible to raise money from that avenue. Dhirubhai, as he came to be known, used ingenious accounting jugglery and financial engineering to raise cheap capital from the equity market and minimise taxes, sometimes very questionably.

Extraordinary attacks on liberty can require extraordinary actions to defend it.

As Arun Shourie, a minister in Mr Vajpayee's cabinet, said, long after these (mis)deeds were done, by fearlessly bending and breaking the laws of the day, Dhirubhai showed how ridiculous they were in the first place and strengthened the case for economic reforms. Just as they had been abused in the political sphere, in this case the laws and institutions themselves were wrong and needed wholesale change.

There are examples even today. West Bengal has been governed by the same political party for over three decades—it is so entrenched that there is little distinction between the party and state machinery. The political opposition to such an incumbent has been bitterly and violently agitational, unlawful and unconstitutional, but history tells us there is no other way to challenge the sitting government in an environment with very limited economic freedom. Moreover, when the government itself flouts the rule of law, the Opposition can't be expected to abide by it.

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The importance of constitutional morality

Keeping faith with the process

politics



Photo: Bryce Edwards

From telecom to mining, India's cupboard of caprice and corruption is overflowing with enormous figures being thrown around in an almost off-hand manner. It is truly a season of scams.

In this environment of intrigue and strife, the middle class scepticism of the political class is understandable. The never-ending list of scams has only exacerbated the ingrained lack of trust. For some, this scepticism extends to Indian polity and its bedrock: Indian democracy and its constitutional underpinnings. Our faith in constitutional morality is being questioned.

In his essay titled "What is constitutional morality?" Pratap Bhanu Mehta, president of the Centre for Policy Research, quotes classicist George Grote defining constitutional morality as "a paramount reverence for the *forms* of the constitution, enforcing obedience to authority and *acting under* and *within these forms*, yet combined with the habit of *open speech*, of action subject only to definite legal control, and *unrestrained censure* of those very authorities as to all their public acts combined, too, with a perfect confidence in the bosom of every citizen amidst the bitterness of party contest that the *forms of constitution* will not be less sacred in the eyes of his opponents than his own." Mr Mehta goes on to condense some of its attributes—self-restraint, a striking respect for diversity of opinion and open criticism, deference to due process, and a disinclination to claim the mantle of sovereignty.

ROHIT PRADHAN

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In the pages of this issue of *Pragati*, Rajeev Mantri makes an eloquent case against over-reliance on constitutional means. Citing examples from India's post-independence history, Mr Mantri asks an important, and admittedly troubling, question: Of what use is constitutional morality if the government of the day itself functions as an autocracy, usurping the rights of the citizens while still maintaining the useful veneer of democracy? And perhaps, constitutional morality would run foul of the likes of Reliance founder Dhirubhai Ambani and his undoubted contribution to India's industrialisation. Of what use is constitutional morality then?

The short answer would be that constitutional morality rejects the transactional view of the constitution; it emphasises processes instead of the eventual outcomes reached. This is the key to managing the inevitable conflicts between different agents, each with their own personal agenda and absolute faith in their appropriation of popular sovereignty. Or as Mr Mehta puts it, "Constitutional morality requires submitting these to the adjudicative contrivances that are central to any constitution—parliament, courts and so on."

But apart from abstract principle, constitutional morality must pass muster in more prosaic tasks—the economic and social development of India and its citizens. For instance, let's look at Indira Gandhi's imposition of Emergency—one of the darkest chapters in India's modern history. It is true that Mrs Gandhi functioned as a quasi-dictator riding roughshod over parliament, judiciary and the free press. It is equally true that without the mass agitation—often violent—orchestrated by the Jai Prakash Narayan (JP)-led opposition movement, the stunning 1977 elections in which Mrs Gandhi's government was defeated would perhaps have been impossible. Yet, what became of the JP revolution? The Janata government, marred by internecine warfare, barely lasted three years before Mrs Gandhi rode back to power with a massive election victory. The constant in-fighting, intrigue and lack of faith in constitutional forms, which was the hallmark of the Janata government, was perhaps not unsurprising considering its origins. Worse, it led to a decade of Congress dominance—India is still paying the price for the turbulent 1980s. In effect, in a matter of three years, India regressed to a position perhaps worse than before JP's revolution.

Or look at the Bharatiya Janta Party (BJP). Indubitably, the emergence of BJP as a major national force has made the Indian polity bipolar. Mr Mantri justifies its aggressive, sectarian and grossly unconstitutional politics

of the 1980s and early 1990s because it "used extremism in defence of liberty." Even if one accepts this sophism at its face value, what of BJP now? It has suffered two withering electoral defeats, and despite having been in power for six years, is still struggling to evolve into a natural party of governance. The core of the party unfortunately retains its fascination for agitational politics—witness the refusal to let parliament function while calling for large-scale illegal bandhs, which achieves little except inconveniencing the *aam aadmi*. BJP's failure of imagination as a political party owes much to its origin as an agitational party—a purveyor of grievances real and imagined.

And what one does make of Dhirubhai Ambani? Many rightly credit the late Mr Ambani for the significant role he played in India's economic transformation and for fostering an investment climate in the country. Mr Mantri defends his more unsavoury dealings as simply a function of the times: In an era where government maintained a vice-like grip on the economy, what alternative did an ambitious entrepreneur have if he wished to realise

Constitutional morality emphasises processes, instead of outcomes.

his large ambitions? Going by this argument, should we not apportion, at least partially, the blame of India's easy embrace of corny capitalism and cronyism, and the *jugaad* attitude to Mr Ambani too? Many prominent industrialists—remember the notorious Bombay club—were never prominent votaries of economic liberalisation, preferring to game the system rather than advocate large-scale reforms which could empower their competitors.

A common thread runs through all these examples: Lack of faith in constitutional morality yielded short-term benefits but in the longer-term, the gains were not sustainable and in many cases ended up strengthening the status quo. Insurrections never turned into full-fledged revolutions. This is entirely unsurprising. Revolutions do have a habit of consuming their own. Movements that reject constitutional morality are not sustainable beyond the short-term. They may spur individual achievements but actively end up undermining institutional authority with deleterious long-term effects.

Continued on Page 14

Civil disobedience lives

Justifying Gandhian struggle in
democracies

politics

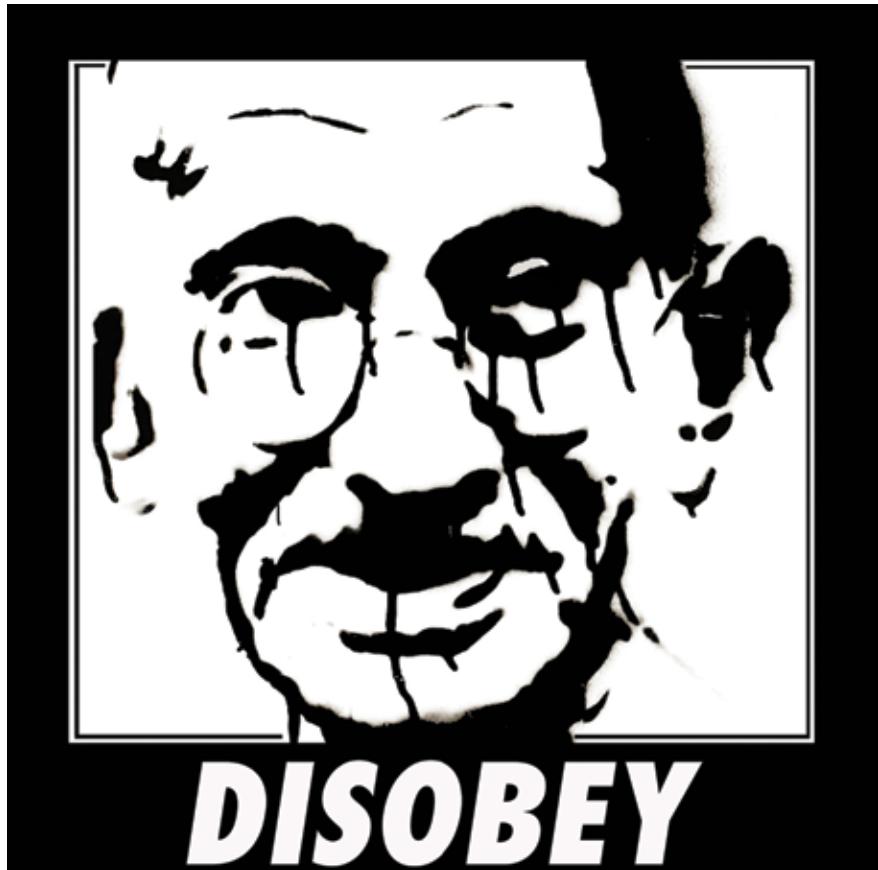


Photo: Lost in Transit

An inquiry into the social, cultural and historical narrative around civil disobedience as a legitimate tool of public protest would traditionally highlight the successes of these movements—Egypt in 1919 against British occupation, Gandhi and the Indian independence movement, the South African struggle against Apartheid, the American civil rights movement and more recently, in movements across the Baltic states. Tempting, as it might be, to believe that civil disobedience is a legitimate tool that citizens can deploy in situations that are morally or politically at odds with their individual consciences, a question worth asking is whether it is a legitimate tool within the framework of a democratic State?

Martin Luther King, writing in his letter from Birmingham Jail, states that “In any nonviolent campaign there are four basic steps: collection of the facts to determine whether injustices exist; negotiation; self purification; and direct action.” He advocates these as escalating steps, that the first step is to gather evidence that such injustices, are in fact, occurring, that armed

GAUTAM JOHN

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with such evidence, negotiations are entered into, and only when such negotiations irretrievably fail should direct action be resorted to. While direct action seems to imply more than just peaceful confrontation, King explains that direct action is to be non-violent and "... seeks to create such a crisis and foster such a tension that a community which has constantly refused to negotiate is forced to confront the issue. It seeks so to dramatise the issue that it can no longer be ignored." Or, to put it differently, when the traditional models and pathways for citizen engagement have broken down or can no longer be relied upon.

Recently, Dimitris Reppas, the Greek minister for public transport, stated the government would not let "Greece [be] exposed to the risk of international disrepute and marginalisation, [the] destination of countries characterised by anomie. The attack on the social acceptability of the free-rider and the political dismantling of its simulacrum of progressiveness is paramount." As convoluted as that statement is, it is worth remembering that governments, in democratically elected situations, derive their legitimacy from a social contract with citizens. This social contract is not absolute and is not, in itself, a blanket justification for policies and laws that are opposed by citizens. This is because the opposition towards such policies and laws are derived from their individual moral and political conscience that cannot be seen to have been abrogated by an election. As Costas Douzinas, a law professor at the University of London writes, "Our implicit promise to obey the government does not mean blanket acceptance of its specific policies. A controversial policy does not become automatically legitimate because it has been enacted in parliament and become law ... This is where the right and duty of civil disobedience enters the scene. If state laws and policies conflict with basic constitutional principles, the supposedly highest expression of popular sovereignty, the obligation to obey disappears and dissent replaces consent."

A common criticism has been that democracies offer multiple methods of resolution of differences—regular elections allow those opposing a Government's policies to vote them out of power and a legal system allows for multiple levels of challenge to laws that are seen as unjust. However, these arguments often fail to take into account that opposition cannot always be expected to wait for an election cycle—there is no obvious reason

an unjust policy should not be challenged at the point of its instatement. Further, where there are special interest groups that direct and shape policy, a civil movement might be the only available recourse to bring to attention an injustice. Not all civil disobedience movements confront issues that can be raised in a court of law. In many instances, where the law trails social trends and mores, a movement of civil disobedience might be the only way to challenge such legal norms that are clearly out of sync with social norms. An important corollary to this is that it is necessary to disobey an unconscionable law in order to bring a legal challenge to it. Individuals engaged in civil disobedience must be willing to bear the consequences of such action.

The discourse around civil disobedience is complex and layered and touches upon multiple other manifestations of civil disobedience—whether violence is acceptable, whether non-cooperation is a valid tool

Individuals engaged in civil disobedience must be willing to bear the consequences of such action.

to be used within this context, whether it is a recipe for anarchy if multiple groups chose this as a model for their own struggle against what they perceive to be morally transgressive laws and more. While the answers vary depending on the philosophical school of thought one engages, a common enough thread is that there is a strong moral mandate for individuals to follow their own conscience and that it is this that forms the basis of civil disobedience.

John Rawls' account of civil disobedience centres around the notion of a nearly just society but real world exigencies point to a state of affairs far from this notion. Civil disobedience movements, have, in many ways morphed to deal with these realities. However, they are, fundamentally, made up of conscientious opposition by individuals and a willingness to face the political and legal consequences of such action. ■

Reforms win elections

Making the case for liberal economic policies

political economy



Photo: Ranjit Bhaskar/Al Jazeera English

The December issue of *Pragati* made the case that India's economic reform agenda remains critically incomplete, and that further reforms are urgently needed. A proximate cause is the lukewarm embrace of liberal economic policies by the Congress party, not merely its erstwhile allies on the Left.

This argument was extended in the January issue, suggesting that the Right has failed to make a convincing case for its agenda, and thereby—consciously or otherwise—ceded the moral high ground to the Left. Let us now flesh out what the Right needs to do to recapture the narrative.

The Left's trump card—and this is true whether in India or the United States—is to claim that its ideology and policies are “pro-poor”, whereas those of the Right are “pro-rich”. This must be challenged. The Left's claim suggests that policies centred on social policy and redistribution, which redistribute slices of the existing pie, will help the poor, whereas Rightist policies that are oriented towards economic growth will “make the rich richer and the poor poorer”, and at best represent a “trickle down” of wealth from the rich to the poor. These claims must be exposed as the intellectually bankrupt clichés they are.

Ironically, it is the Left's policies that are anti-poor. Redistribution without economic growth is perforce a zero-sum game. By merely taxing the rich and transferring resources to the poor, you give the poor an

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incentive not to work or educate themselves, even as you destroy the motivation of the rich to work and remain productive. In the long run, this retards the growth of the pie, or worse still, shrinks it. The outcome: Everyone ends up being a loser.

By contrast, an emphasis on liberal economic policy reforms, which foster rapid growth and structural transformation, will help make the pie larger, and allow everyone—rich and poor—to benefit. In other words, economic growth will help ensure that we are in a game with a win-win outcome.

Another important distinction must be noted. Critics on the Left often confuse, or deliberately conflate, poverty and inequality. This too must be challenged. Poverty, which means that one-third of the people in our country cannot adequately feed and look after themselves, is morally reprehensible—there is no disputing that. *Inequality*, however, is a different issue. The Left considers an unequal distribution of income *ipso facto* immoral. What is wrong with an unequal distribution of income, so long as poverty has been eradicated? Would we rather not live in a world in which everyone can feed themselves, and in which there are also rich folk—as opposed to a world in which income is equally distributed and everyone is poor? The answer is self-evident.

The Right must aggressively make the case that liberal economic policies, while they may exacerbate inequality (and even that is debatable), will reduce poverty. As Jagdish Bhagwati has argued, it is not a question of passive “trickle down” but of active “pull up”, in which the poor are lifted of poverty into gainful employment and steady income through the fruit of economic growth.

How do we make a liberal economic policy agenda politically palatable to the electorate? There seems to be a sense in both major political parties that this is not possible—which is possibly the reason why it has not been wholeheartedly embraced by either of them.

It is a universal law in politics that what matters most in electoral outcomes is economic performance in the year or two preceding an election (not just GDP

growth, but also employment, and to a lesser extent inflation). To be more precise, a good economy leading up to an election benefits the incumbent, whereas the opposite favours the challenger. There is a large body of evidence that this is the logic underlying political outcomes in the West, especially presidential elections in the United States.

Similar trends can be seen in India as well. In recent research, Arvind Panagariya of Columbia University and Poonam Gupta of the Indian Council for Research on International Economic Relations (ICRIER) have found, using carefully constructed constituency level data on several recent elections that, controlling for other relevant factors, rapid economic growth in the period just before an election increases the incumbent's probability of re-election. The recent success of Nitish Kumar in Bihar's state election is a case in point.

Rapid economic growth just before an election increases the incumbent's probability of re-election.

This leads to a two-step syllogism. First, we must make the case that liberal economic policies will lead to more rapid growth, higher incomes, employment, and reduced poverty. Two, we must point out that evidence this in turn lead to electoral success. Then, it will be only a matter of time before forward-looking politicians take the cue and re-orient their political platforms towards furthering economic reform. It is worthwhile remembering Adam Smith's advice that people respond to incentives. If we can get our politicians to respond to the carrot that can ensue from good economic policies, we are well on our way to securing prosperity not just for ourselves but for generations to come. ■

The importance of constitutional morality: Continued from Page 10

In the 1990s, faced with unrelenting violence and daily kidnappings, the Maharashtra government permitted the police to stage “encounters” and eliminate wanted gangsters. The crime rates plummeted for a

while but almost inevitably “encounters cops” were found to have been co-opted by the very system they had been challenging. A lack of faith in constitutional morality ultimately created more monsters than it ever slayed. ■

Questioning The Right To Immunity

Roznama Ausaf's January 29 editorial criticised the Pakistani government's handling of the Ramond Davis issue, where an American affiliated with the United States Consulate in Lahore opened fire—ostensibly in self-defence—killing three Pakistanis (whom he identified as thugs). The editorial argued that while Lahore High Court lawyer Athar Minallah asked for Davis' trial to be conducted in Pakistan, the government seemed to be bowing down to pressure from the United States. The editorial posed the following questions: Why was a US citizen roaming the streets of Lahore, which, in the West is portrayed as being unsafe? How is it that despite an encounter with two Pakistanis, Davis escaped without so much as a scratch? The editorial put forth suspicions that Davis was professionally trained, and possibly a Blackwater agent en route to a mission. If events unfolded as Davis narrated them, how did he come to shoot one of the Pakistanis from behind? As for the arguments about diplomatic immunity put forth in the West, the editorial asked the government to clarify who the immunity is applicable to—certain staff levels or all consulate staff? Furthermore, the editorial questioned that if Pakistani diplomats were to conduct themselves in a similar manner in the United States, would Washington grant them diplomatic immunity? The editorial suggested that the Pakistani Foreign Ministry and the US State Department had worked out an arrangement to decrease Davis' sentence; it warned that if the Pakistani government were to reduce Davis' sentence, Islamabad may end up with a Tunisia-type revolution in its hands.

Looking To The Future

Makram Mohammad Ahmed opined in Egypt's *al-Ahram* on the way forward for Egypt after the recent popular uprising. The writer suggested that the uprising was a watershed moment in post-colonial Egypt's history, and that the country is faced with two stark choices—democratic transition or chaos.

Mr Ahmed suggested that it is important for calm to prevail in Egypt and for a reconciliation process to begin, leading up to the presidential elections later this year. He recommended a series of steps that the military and transitional government could take to restore calm in Cairo. The suggestions put forth included the initiative of inviting a team of economists to establish a new minimum wage and reconsider pay scales in the public and private sectors, adaptation of a declaration on human rights that includes abolishing the state of emergency (and its curbs on freedom), instituting rights to information, imposing fines for not voting and using a national ID card (instead of a ticket) to verify voters. In addition, Mr Ahmed called for the formation of a Council for National Dialogue to agree to the terms and conditions under which legal transfer of power will take place through the electoral process. The writer stressed that part of this process should include an unambiguous commitment to human rights, including the rights of minorities, and to the rights to freedom of expression and equal opportunity.

Reassessing the Situation in Kashmir

Amjad Islam wrote in the *Daily Express* about the Kashmir issue, that Pakistan's annual observance of February 5 as *Youm-e-Yakjehti-e-Kashmir* (Kashmir Solidarity Day) has lost its meaning and purpose since several years. He criticised Pakistan's policies toward Kashmir, which he said have had no consistency from 1947, and through the agreements in Tashkent and Shimla.

The writer put forth that Kashmiris feel a strong bond with Pakistan, and cheer for the Pakistani team whenever it plays against India. However, the same commitment isn't present in Pakistan's state policy towards Kashmir. Islam pointed out that while the terms "occupied Kashmir" and "Kashmir valley" are sometimes treated as synonyms, the lack of a Muslim majority in the state's other regions means that even if a plebiscite is conducted, the only region likely to support union with Pakistan would be the Kashmir valley. He argued that the situation has changed and requires reconsideration—he suggested

that Kashmiris' insistence on independence has decreased because of "draconian military measures" employed by India. According to the writer, economic subsidies offered by India have helped Kashmiris, who are therefore less keen on independence. Furthermore, Islam pointed out, Pakistan's challenges in confronting terrorism, religious extremism and economic stagnation have forced Kashmiris to question whether Pakistan can really help them if it cannot help itself. Based on his arguments, Islam hopes that India and Pakistan will reconsider their positions, commit to peace, and formalise the de facto boundary between the two nations, by taking into consideration inputs from the people of Kashmir.

Bahrain's Security Status

Qatar's *al-Raya* strongly opposed the protests in Bahrain in its editorial. The editorial says that demonstrations must cease immediately, especially after the King Sheikh Hamid announced his desire for dialogue with all parties and groups in accordance with the wishes of the Bahraini people. *al-Raya* suggests that it is important for demonstrators to realise that protests will not help in achieving their objectives, and that they choose the option of reconciliation.

Reconciliation, however, cannot take place when there is a security situation in Manama. The editorial says that the demonstrators are creating divisions in society which are unacceptable, and seem unwilling to listen to statements by the King, that the state would not differentiate between Shias and Sunnis (Bahrain is unique in that it is a demographically Shia-majority state ruled by a Sunni royal family). The editorial states that a breach in the security and stability of Bahrain will affect the entire region, and that this is a "red line" that cannot be crossed. In this regard, it applauds the emergency GCC ministerial meeting in Bahrain, where countries in the region stood "shoulder-to-shoulder" with Bahrain and rebuffed "foreign interference" in the country's affairs.

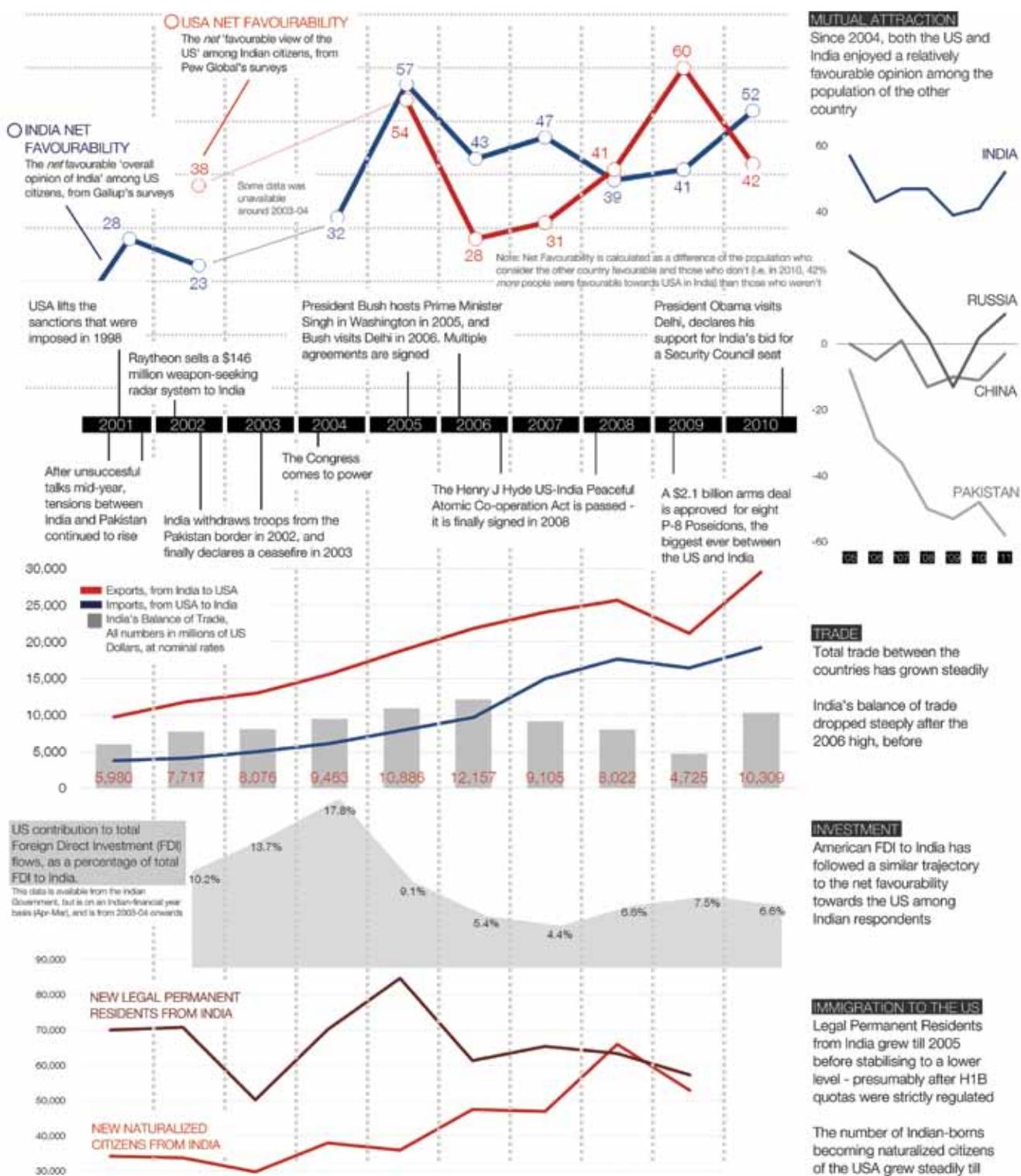
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infographic

Mutual Benefit

DIBYO HALDAR

A quick look at recent trend in public opinion across the Indo-American relationship



NOTES

The opinion of India among Americans is from the latest release of Gallup's World Affairs Poll (www.gallup.com) - it has been calculated as a difference of the 'favourable' and 'unfavourable' scores. The opinion of the US among Indians has been similarly calculated from the Pew Global Attitudes Project (www.pewglobal.org). The Balance of Trade data is from the Foreign Trade Statistics section of the US Census Bureau. FDI to India data is from India's Department of Industrial Policy & Promotion (Ministry of Commerce and Industry) - it is not calendar year data. Immigration data is from US Homeland Security.

Who's the Karmapa?

The politics of a succession struggle



Photo: Carol Mitchell

The controversy over just who is the 17th Gyalwa Karmapa has dogged the Kagyu sect for nearly three decades, after the 16th Karmapa died in 1981. Both claimants to the post—Ogyen Trinley Dorje and Trinley Thaye Dorje—have lived in Tibet for fewer number of years than the controversy has lasted.

The Karmapa Kagyu sect is older than the institution of the Dalai Lama, and even though the latter has endorsed Ogyen Trinley as the 17th Karmapa, the issue is yet to be resolved. Rival claims to the seat at the Rumtek monastery continue between those who have backed the selection made by Tai Situ Rinpoche and the other made by Shamar Rinpoche. The two Rinpoches were among the four regents appointed by the 16th Karmapa to select his successor. The contest between the two groups turned violent at some points in 1992-93, and the Sikkim High Court had to issue an injunction to stop the recognition of the 17th Karmapa. In 1994, Shamar pre-empted the court's decision and appointed Trinley Thaye Dorje, who had escaped from Tibet that year, as the successor.

The other side of the story—Ogyen Trinley's escape from Tibet and his sudden appearance in Dharamsala in January 2000—is also cause for concern. The issue gains more importance when seen in light of the fact that China had endorsed Ogyen Trinley as the Karmapa. The Chinese reaction to what happens south of the Himalayas including Bhutan, Sikkim, Nepal and Ladakh will be of immediate importance to India, especially in terms of resolving the boundary question and territorial claims. China's reference to Arunachal Pradesh as

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Southern Tibet is part of a grander scheme to weaken the hold of Tibetan Buddhism, as also to continue to keep India on the back foot over the boundary issue.

The recovery of money (about \$1.5 million) from Ogyen Trinley's office in the Gyuto monastery is yet another controversy, although he is not the first religious head in the world who is similarly well endowed. The stated purpose for the money was that it would be used to buy land to construct a monastery in Himachal Pradesh, even though local laws prohibit sale of land by non-residents. Pempa Tsering, the president of the Tibetan parliament-in-exile, explained that this had happened because of ignorance of the law.

Although the Indian government allowed Ogyen Trinley to visit the United States in 2008, he was not allowed to visit Europe last year, nor allowed to travel to the United States in January 2011. Trinley Thaye was able to travel abroad including Hong Kong, Russia and Europe. Both of them are versatile with the internet, and their social networking sites have garnered a considerable following in the West. Ogyen Trinley's overseas following also functions as a pressure group that tries to coerce New Delhi on issues relating to Tibet. The sect's Dharma Chakra Centres in India and abroad are lucrative ventures, and it is conceivable

that this is also a cause of rivalry between the two groups.

Given that there are two claimants to the succession to Rumtek and therefore of the Gelugpa (a large Kagyu following which is larger than the Dalai Lama's sect), a division would be detrimental to the Tibetan Buddhist

Succession struggles have weakened the Tibetan movement.

cause. Furthermore, in the conceivable future, there will be a successor to the present Dalai Lama—and it is likely that the Tibetan movement will be in similar conflict of having to choose between a possible Beijing-appointed successor, or one selected by Tibetans living outside Tibet. As a consequence, the two strongest Tibetan movements based out of Tibet, and connected with India, would weaken. This would affect ties between India and China. The sensitivities of the Dalai Lama need to be taken into account as well. Whether a solution will be reached—and in what manner—remains to be seen. ■

When constitutionalism fails: Continued from Page 8

What remains to be seen is whether the current Opposition in West Bengal has recognised the importance of encouraging capital formation by standing for economic freedom, and whether it follows that philosophy to strengthen its long-term political prospects.

If laws and public institutions don't keep pace with new ideas and are abused by those entrusted with upholding them, they risk being challenged by unconstitutional means. This should not be looked down upon even in a democratic republic.

Goldwater was quoting the great Roman statesman Cicero when he justified the use of extremism to defend liberty. Sometimes keeping the Republic means employing

unconstitutional means, and extraordinary attacks on liberty can require extraordinary actions to defend it.

Rather than rejecting and turning up our noses at prior or current mass agitational politics which may also be unconstitutional and unlawful, we will be better off qualifying and tempering our view, keeping in mind the context of very limited economic freedom in India even today. Without economic freedom, political freedom enjoyed by the average Indian citizen is highly restricted. Therein lies the root cause of almost all unconstitutional agitation for political gain. In fact, when non-constitutional methods are used to enhance liberty and promote economic freedom, it strengthens the Republic. ■

Correcting years of neglect

National security management needs urgent stewardship

national
security

South Asia is the second most unstable region in the world, and may even overtake West Asia to reach the first place. Among the world's major democracies, India faces complex threats and challenges, spanning the full spectrum from nuclear to sub-conventional conflicts. Unresolved territorial disputes with China and Pakistan, insurgencies in Jammu and Kashmir and the north-eastern states, the rising tide of left wing extremism (LWE) and the growing spectre of urban terrorism have vitiated India's security environment. Yet, despite the prolonged exposure that the security establishment has had in dealing with these multifarious challenges, India's national security continues to be poorly managed.

The first and foremost requirement for improving the management of national security is for the government to formulate a comprehensive National Security Strategy (NSS), which includes internal security. The NSS should be formulated after carrying out an inter-departmental, inter-agency, multi-disciplinary strategic defence review. Such a review must take the public into confidence—and not be conducted behind closed doors. Only then will the various stakeholders be compelled to take ownership of the strategy and work to achieve its objectives.

Priority Measures

- Formulate a comprehensive National Security Strategic (NSS), after undertaking a strategic defence review.
- Approve LTIPP 2007-22, the long-term integrated perspective plan of the armed forces, and the ongoing Defence Plan 2007-12.
- The defence budget must be enhanced to 3 percent of the GDP.

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- Implementation of defence procurement plans such as artillery modernisation must be hastened.
- Modernisation plans of the central paramilitary and police forces must also be given their due attention.
- The government must immediately appoint a Chief of Defence Staff to head the defence planning function and provide single point military advice to the Cabinet Committee on Security.
- Anomalies created by the Sixth Pay Commission must be redressed, including acceptance of the one rank-one pension scheme.
- A national War Memorial must be constructed in New Delhi to honour those who have sacrificed their lives in the service of the country.

The armed forces are now in the fourth year of the 11th Defence Plan (2007-12), which has not yet been formally approved by the government. The government also has yet to approve the long-term integrated perspective plan (LTIPP 2007-22) formulated by HQ Integrated Defence Staff. Without these essential approvals, defence procurement is being undertaken through *ad hoc* annual procurement plans, rather than through long term plans designed to enhance India's combat potential. These are serious lacunae as effective defence planning cannot be undertaken in a policy void. The government must commit itself to supporting long term defence plans—if not, defence modernisation will continue to lag, and the present quantitative military gap with China's People's Liberation Army will become a qualitative gap as well in 10 to 15 years. This can be done only by making the dormant National Security Council a pro-active policy formulation body. The Cabinet Committee on Security (CCS) deals with current and near-term threats and challenges and reacts to emergent situations.

The defence procurement process must be speeded up. The army lacks towed and self-propelled 155mm howitzers for the plains and mountains, and urgently needs to acquire weapons and equipment for counter-insurgency and counter-terrorism operations. The navy has been waiting for far too long for the INS Vikramaditya (Admiral Gorshkov) aircraft carrier, which is being refurbished in a Russian shipyard at an exorbitant cost. Construction of the indigenous air defence ship is lagging behind schedule, while the air force's plans to acquire 126 multi-mission, medium-range combat aircraft in order to maintain its edge over regional air forces are stuck in the procurement quagmire. All three Services

need a large number of light helicopters. India's nuclear forces require the Agni-III missile and nuclear powered submarines with suitable ballistic missiles to acquire genuine deterrent capability. The armed forces do not have a truly integrated C4I2SR system for network-centric warfare, which will allow them to optimise their individual capabilities.

All of these high-priority acquisitions will require extensive budgetary support. With the defence budget languishing at less than two percent of India's GDP—compared with China's 3.5 percent and Pakistan's 4.5 percent (plus US military aid)—it will not be possible for the armed forces to undertake any meaningful modernisation in the foreseeable future. The funds available on the capital account at present are inadequate to cover even the replacement of obsolete weapons systems and equipment that are still in service well beyond their useful life cycles. The central police and para-military forces (CPMFs) also need to be modernised as they are facing qualitatively greater threats while being equipped with obsolescent weapons.

The government must also immediately appoint a Chief of Defence Staff (CDS) or a permanent Chairman of the Chiefs of Staff Committee to provide single-point advice to the CCS on military matters. Any further dithering on this key structural reform in higher defence management due to lack of political consensus and the inability of the armed forces to agree on the issue will be detrimental to India's interests in the light of the geo-political developments taking place in the country's vicinity. Logically, the next step would be to constitute tri-Service integrated theatre commands to synergise the capabilities of individual Services. International experience shows that such reform has to be imposed top-down, and would never work if the government expects it to come the bottom-up.

The softer issues that do not impinge immediately on planning and preparation to meet national security challenges must not be ignored, as these can have adverse implications on the morale of the men in uniform. The numerous anomalies created by the implementation of the Sixth Pay Commission report must be resolved. In fact, the ham-handed handling of this issue has led to a dangerous “them versus us” civil-military divide, and the government must work to bridge this gap quickly.

The ex-Servicemen have had a raw deal, and have resorted to surrendering their medals and holding fasts

Continued on Page 25

The man who made strategy

A tribute to K Subrahmanyam

strategy



Photo: Medha Jaishankar

Krishnaswamy Subrahmanyam, doyen of modern Indian strategic thinkers passed away on February 2nd, 2011, at the age of 82. Rich tributes have been written by those who knew him. Unlike them, I did not know him face-to-face. I knew him only by the occasional e-mail.

To me he was Bhishma Pitamaha and Chanakya personified due to his unwavering focus on Indian security and his vast knowledge of statecraft. He left a deep impact on my thinking about strategic matters.

Meera Shankar, India's ambassador to the United States, writes that Subrahmanyam was inspired as youth by Jawaharlal Nehru's "Tryst with destiny" speech. Soon after, at a young age, he stood first in the 1951 batch of the Indian Administrative Service (IAS). We don't know about his personal life, but P R Chari, director of the Institute of Peace and Conflict Studies, recalls that Subrahmanyam put himself through college and took care of his siblings. He must have been outstanding in his state cadre, for he was then

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moved to New Delhi. After that there was no looking back. Over a career spanning the next two-and-a-half decades, he dominated the Indian strategic discourse with his clear thinking and level-headed decisions on matters of national interest. His professional achievements are too well known to bear repetition here.

Subrahmanyam was not only encyclopedic in his knowledge, but distinguished himself by willingly sharing it. He was a realist, but his realism was drawn from the ancient wellspring of Bhishma's teachings in the Shanti Parva of the *Mahabharata*, and not any recent Western thinkers. While he was familiar with the writings of contemporary scholars of international affairs, he was conscious of their limited applicability to the Indian situation.

He was singularly driven in his quest to advance Indian interests. His forte was strategic decision making at national level, way before it became a discipline. As Rory Medcalf, an Australian diplomat & scholar notes, Subrahmanyam taught without appearing to teach. And every sishya of his felt he had his undivided attention—the mark of a real guru.

The 1960s were a tumultuous decade in which India saw three wars on two borders, lost two prime ministers, had a massive currency devaluation and saw the nuclear ground shifting from beneath its feet. The question earlier in the '50s was when—not if—India would test nuclear weapons. The '60s saw China race ahead with its nuclear tests and, to add to the insecurity, the nuclear Non-Proliferation Treaty (NPT) was being pushed. It was in those uncertain times that the K Subrahmanyam lighthouse illuminated the path for India's strategy.

His accomplishments were many, but three stand out. First, he ensured that India's scientists had the time to develop expertise, and allow the political leadership to exercise the nuclear option, by advocating that India keep out of NPT. Second, he ensured that the military threat on western borders was minimised, by championing an Indian intervention in East Pakistan. Third, he envisaged the end of stifling technology sanctions regime slapped against India after the 1974 nuclear tests by throwing his weight behind the India-US nuclear deal. He thus worked to ensure that the tryst did not turn into a mirage.

There is no direct evidence of a grand strategy of the modern Indian independence movement. There is no single document that describes the endeavour. However one can infer from the speeches, writings and actions

of a pantheon of national leaders like Tilak, Gokhale, Gandhi, and Nehru that there were three goals of the movement. The primary goal was to end colonial rule and get rid of the British. The secondary goal was to create a modern Indian state and reclaim its status prior to the beginning of the colonial era. The tertiary goal was to prevent further fragmentation of the subcontinent.

Mr Subrahmanyam belonged to the generation that implemented the second and third goals, which remain works in progress. One can understand his world view through this prism. The support for the nuclear option is part of the creation of the modern Indian state and the power that goes with it. Modern India was not to be subject to coercion ever again. His support for Indian interests by tilting towards the Soviet Union was due to

During uncertain times, the K Subrahmanyam lighthouse illuminated the path for India's strategy.

the United States' support for Pakistan and later China. Subsequently, when the Soviet Union collapsed he rightly concluded that India needs to remove the United States' misperception of India that plagued the 1990s. In the new millennium, when the Bush administration offered the nuclear deal he set about convincing India to seize the opportunity.

Subrahmanyam saw knowledge as the currency of power in this century (See *Pragati*, Issue 14, May 2008). For the last two years he had been arguing for India to accelerate the development of a knowledge economy that would develop synergy with the United States and take the strategic partnership to the next stage. He foresaw that the United States-demographic shift would require Indian knowledge resources if it is to retain competitiveness. He also advocated good governance as a way to reduce disparity and dissipate the million mutinies inside India.

It would be a fitting tribute to follow through with these ideas and realise his resolve to ensure that the tryst with destiny happens. While we remember him in words, we must remain true to the essence of his analytical approach as much as to his teachings.

He will be missed, but lives on through his disciples. ■

Open up the Rupee

India's currency policy is hurting its economy

monetary policy

PayPal, the company that pioneered payments and money transfers on the internet, recently announced a change in the payment system for Indian residents, by setting a limit of \$500 per transaction. Furthermore, users cannot use money credited to them to directly buy goods or services—they will have to get the money paid into their bank account first. PayPal said this change was made in order to comply with Reserve Bank of India (RBI) regulations and, regrettably, did not give any further details.

Many Indians use PayPal—shoppers who buy books or software online, electronic retail entrepreneurs, and freelancers who are paid online for *ad hoc* or small projects. Typically, they would receive and store money at PayPal, and use it to pay for goods or services, or to make small donations. With these new changes, they must withdraw any received money immediately so the intermediation costs go up—users can still pay others through PayPal with a credit card, but that means paying fees at both ends of the transaction.

The limit of \$500 per transaction hurts the bigger players who heavily relied on PayPal as it is trusted by their US customers. Now they have to tell customers to split transactions into chunks of \$500—a process that is tedious and appears unprofessional.

The new regulation was announced in a circular by RBI, which stated that the Foreign Exchange Maintenance Act (FEMA) laws do not allow for storing of export proceeds abroad. PayPal is therefore required to put all such money into a pooled account at a “Category 1 I-Bank”, and then transfer it to the exporter’s bank within seven days. The seven-day limit is

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Photo: Rohit Mattoo

the RBI restriction, wherein interest needs to be paid above that time (in addition, you have to be a bank); PayPal is required to report in detail all transactions over the \$500 limit.

Storing virtual money owned by Indians—in a holding system where you’re allowed to put money in and take it out—is regulated by RBI under the Payment and Settlement Systems Act, 2007. It specifically requires that only banks can offer “open” systems where you can deposit and withdraw funds—such as credit and debit cards. Semi-closed instruments—where you only buy a certain set of services—require RBI approval, and can’t be converted to cash. These are the restrictions that prevent the cashing in of gift vouchers or converting credit card points to money. Barter is okay, cash conversion is not.

It might seem like the best option is for PayPal to become a bank. The question is, can PayPal become a bank? Even if it wanted to, the RBI is unlikely to give the company a license. Or, PayPal could register as a

can finance more than three years’ worth of oil imports (a far cry from just 15 days’ worth in 1992). Moreover, India doesn’t need reserves against every single dollar that India Inc. owes—very little of our government borrowing is in dollars, and corporates can buy dollars from the open market to pay back debt.

The rupee isn’t yet fully convertible. One thing though—there is “current account” convertibility since 1994, so you can buy and sell goods abroad for “trade” purposes. But you can’t buy assets abroad or transfer dollars just as easily—that would be a “capital account” transaction, which would cause you to jump through several hoops. Indian nationals can buy certain assets abroad, up to \$200,000 per year. Foreign individuals can’t own rupees at all, while foreign corporates and institutions get near-unfettered access. Non-resident Indians get a quasi-convertible regime with several hurdles.

Why not just allow for full convertibility and get rid of these restrictions?

With \$300 billion in reserves, India doesn’t need dollars anymore.

“semi-closed” service, but that doesn’t allow them to pay out money to end-users. The rules may appear to be harsh, but they apply broadly to everyone in the business—this is what stopped the Times Group from offering a similar service earlier.

Having said all this, there is something we must change.

Change the mindset, change the rules

FEMA—the act that dictates the \$500 limits, restricts storing money abroad—is unnecessary. It is an artefact of the closed regulatory system that makes the Rupee not fully convertible. After all, why should we care if people hold their foreign currency abroad? If they pay taxes on such income in India, it shouldn’t be a problem.

The RBI or the government believes that India needs the dollars—so you shouldn’t be allowed to store it abroad, and must bring it home and convert it to rupees. But we don’t need the dollars anymore—with \$300 billion in foreign exchange reserves, India

Pros and cons of full convertibility

Full convertibility will restrict RBI control on the rupee—but then, it won’t need to maintain reserves. In panic situations, we won’t be able to protect our currency quite as much—but we now know that is a symptom, not the disease. Another concern is that convertibility would cause too much volatility in exchange rates. But the impact will be limited since we already have large volumes being traded in both interbank and exchange-traded futures markets.

The alternative—of locking down our dollars—has an invisible and more damaging impact in terms of lost opportunities. Simply put, we will grow a lot more if the RBI and FEMA stopped being obsessed with foreign exchange control.

More importantly, full convertibility would allow our exporters to invoice trade partners in rupees. It would allow us to trade with countries like Iran who despise the dollar (Iran sells us a lot of oil for our money). It will allow us to sell our country’s debt and equity to foreign entities more easily—even individuals will be able to buy our stocks and bonds. We will be able to buy assets abroad, even if we needed to report it, without needing permission.

Ajay Shah, professor at the National Institute of Public Finance and Policy, goes one step further and says that we must dilute reporting requirements as well—you could create barriers from onerous

reporting requirements while seeming to have full convertibility.

Alongside all these measures, India must ease restrictions on foreigners buying our rupee debt. Apart from reducing interest rates, it will reduce the amount banks, insurers and pension funds need to put into government debt, and thereby help the fledgling corporate bond market. We are a more fiscally responsible country than most of the West, but we pay

three times their interest rates.

The PayPal issue cannot be sorted out for PayPal alone—it has to comply with the rules of the land, and if they want to pay out to Indian banks, they must follow the RBI diktat. But the policy response should be to open up our currency. We've been protected for too long—and it seems—from ourselves. To quote Tina Turner, we don't need another hero; we don't need to know the way home. ■

Correcting years of neglect: Continued from Page 20

for justice to get justice for their legitimate demand of "one rank-one pension". One rank-one pension is an idea that must be implemented without further delay—and without having to appoint any more committees of bureaucrats to look into the issue. While a Department of Ex-servicemen's Welfare has been created in the Ministry of Defence (MoD) in keeping with the UPA's

Common Minimum Programme, there wasn't a single ex-Serviceman in it until recently. Such measures do not generate confidence among serving soldiers and retired veterans in the civilian leadership.

Finally—rather unbelievably—India does not have a National War Memorial to date. Need we say more? ■

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How does fiscal deficit impact inflation in India?

JEEVAN KUMAR KHUNDRAK PAM and SITIKANTHA PATTANAIK of RBI in a paper (“Global Crisis, Fiscal Response and Medium-term Risks to Inflation in India”) explore the relationship between fiscal deficit and inflation in India.

The authors frame their analysis against the backdrop of the global financial crisis where fiscal deficits (FD) have surged. They put forth that the immediate impact of rise in FD on inflation was limited as first it replaced the declining private consumption and investment. Second, there was no large expansion in money growth as demand for credit remained depressed. However, going forward, FD has to be lowered as it could lead to inflation, as both aggregate and credit demand rise.

The authors study the relationship between FD and inflation for the 1953-2009 period. The finding is 1 percent rise in FD could lead to a rise in 0.25 percent in inflation. Though over a short-term, the relationship is modest. The study also shows that FD leads to rise in inflation and not the other way round.

The paper concludes by saying that while fiscal stimulus was appropriate in the context of the global financial crisis, it may have medium-term potential ramifications for inflation situation. Hence, there is a need to return to fiscal consolidation path at the earliest. The key would be to emphasise on the quality of fiscal adjustment driven by expenditure rather than revenue buoyancy.

Greece Crisis and Similarity to India

MICHAEL LEWIS in *Vanity Fair* (“Beware of Greeks Bearing Bonds”) points to the fallout of a monastery as the trigger of the Greece crisis. Vatopaidi monastery, a 1,000-year-old organisation was caught in land scams with the Government. The government had to step down amidst public pressure; the new government looked at the fiscal numbers and declared that the deficit was much higher, leading to a meltdown.

Lewis says that in the election year, the tax collectors are pulled off the street! There is a huge black economy in Greece

with proceeds invested in real estate. To avoid taxes, receipts/invoices are neither given nor collected. It takes 10-15 years for courts to give decisions leading to few cases being filed. There are many inefficient public sector enterprises, and in some cases wage bills are much larger than revenues earned. Its healthcare and education systems are in very bad shape as well.

While reading this, the parallels with India cannot be missed—or ignored. India has its own set of stories in public enterprises, education and healthcare. India is a larger economy than Greece, and hence much of this is ignored. A larger economy works both ways—it may delay the crisis, but the fallout will be much larger. The hope is for Indian policymakers to take some positive, much needed lessons from Greece’s governance crisis.

Mixing economics analysis with sports

TOBIAS MOSKOWITZ AND L. JON WERTHEIM have written a book, *Scorecasting*, where they mix economic analysis with sports. Moskowitz shares his findings with *NYT Economix Blog*.

There are two findings. One, they show that for fans of Chicago Cubs, beer prices matter more than the club’s win-loss record. The stadium is the best place to celebrate in Wrigley and people see it more as an outing. Despite the club not winning since the last 60 years or so, the local attendance is as good as ever. This is good for the stadium and earnings, but works as a negative factor for the team as there is no incentive to win.

The second finding is more controversial. The authors say that the home advantage is not because of knowledge of local conditions, but because of umpires/referees giving decisions that favour the home team! In stadiums where umpires knew that their decisions were being monitored, the home bias did not intrude in the decision. The authors think psychology and behavioral science could explain the reason why umpires sometimes give into pressure from the home crowd.

The findings have interesting implications for IPL/general Cricket. Though IPL is relatively new, it will be interesting to see whether fans in future will look at the stadium than the team’s win-loss record. The question of umpires favouring

home-teams is a oft-discussed issue in cricket—with increase in technology, this bias is mitigated, but the reviews are limited. It will be interesting to know about the history of umpires’ decisions as well.

Four questions related to Japan’s economy

Bank of Japan Governor MASAAKI SHIRAKAWA gave a speech (“Toward a Revitalization of Japan’s Economy”), in which he dwelt on the four broad questions he is asked in most meetings with press/policymakers.

□ *Why has Japan’s economy lost its vitality?* Reason is loss in productivity. Japanese firms could not respond to the changes in economic environment after the 1990s. Following that, consumption and investment levels declined due to an ageing population.

□ *Why has deflation continued for a prolonged period?* As growth continues to remain positive, low price levels decline. Lehman fall made the slump worse for Japan, thereby prolonging deflation. Yet, it is much lower than deflation in 1930s and has not resulted in a spiral.

□ *Why are yields on JGBs have been stable at low levels?* People believe Japan will continue to grow and low inflation will remain. However, one cannot take this for granted, as fiscal imbalances can’t run forever.

□ *Can Japan’s economy regain its vitality?* Yes, it can—if the country can tackle the problem of an ageing population, raise productivity growth, create markets where there is huge demand like Asia, and improve fiscal balances.

Shirakawa discusses the strengths of Japan economy, which can help propel Japan’s economy—its location in Asia, high level of technological capabilities and soft power. Economic history shows economies have rebounded strongly from deep crisis in the past like US and Korea—Japan could do so as well.

Amol Agrawal blogs at *Mostly Economics* (mostlyeconomics.blogspot.com)

In Parliament

Incentive for MPs to be accountable to their voters

M R MADHAVAN

The second day of the budget session of Parliament saw disruptions as several Lok Sabha Members of Parliament (MPs) from Telangana walked into the well of the House. While the demand for a Joint Parliamentary Committee (JPC) to investigate the 2G spectrum allotment was the main issue that derailed the previous session of Parliament, earlier sessions have seen disruptions on many types of issues such as pricing of sugar, land acquisition for highways, delays in preparation for Commonwealth Games and so on. Our parliamentarians often resort to interrupting the sitting of the house rather than go through the cumbersome process of debating various issues, weighing the arguments, and taking a decision.

The question hour often becomes the biggest casualty of this process. This means that MPs lose an important tool to enforce the accountability of the government to Parliament.

Some quick-fix solutions have been proposed, especially to rescue the question hour. One of these is to start the day with zero hour, so that MPs who are seized with an urgent matter can make their point; the question hour could be shifted to the afternoon. Though such measures may rescue the question hour, there are at least three fundamental issues that break the link between the MPs and their electors, and reduce the incentive for MPs to invest the resources to examine issues carefully.

The anti-defection law works as the biggest disincentive for MPs to critically analyse bills and issues before Parliament. If a whip is issued, the MP runs the risk of being disqualified from Parliament if he fails to follow the party line. This implies that the MP would be unable to represent the interests of his electorate or

to vote according to his conscience on most matters. As the MP knows that he does not have the freedom of choosing his vote, and is effectively only contributing to the total number of votes “owned” by his party, why would HE invest the resources to understand issues? Take a hypothetical case. Suppose there is a bill introduced by the government that adversely affects the rights of people living in hilly areas. A ruling party MP from an affected constituency cannot vote against the bill, unless he is willing to stake his seat on the issue.

He can cite the anti-defection law to justify his voting decision. That brings us to the second issue. Does the MP need to justify his stance? Most bills in Parliament are decided by voice vote. That is, members express their support or opposition by shouting out “ayes” or “noes”. The Speaker decides the verdict based on her judgement of which side had more support. Any MP can contest this ruling, and demand for a division (electronic voting). However, MPs rarely use this facility. Other than constitutional amendments—which require a two-third majority, and which, presumably, the human ear cannot judge—and confidence votes, very few bills are voted in this manner. This implies that there is no record of any MP’s vote on most bills. Indeed, one doesn’t even know whether the MP was present in the House during the vote.

One argument could be that the anti-defection law makes the process of an MP’s vote just an academic exercise. But stretching that argument to the limit, one can say that only party whips need to attend Parliament, and that their votes shall be weighted according to the party strength! Also, in our hypothetical example, does the citizen in the MP’s constituency have the right to know how the MP voted?

Most advanced democracies do not have an anti-defection law. Also, most votes are recorded. This enables voters to judge the MP’s performance at the time of the next election. One just has to recollect how the United States presidential candidates had to defend their positions on the Iraq war vote. In Britain, on which our parliamentary system is modelled, most votes are recorded. Parties also permit free vote on most issues that are not core to their basic principles. In any case, in the absence of an anti-defection legislation, the maximum penalty for an MP who defies the party whip would be expulsion from the party—he continues to retain his parliamentary seat. Websites such as *theyworkforyou.com* track the voting behaviour of British MPs and empower the electorate to ensure transparency and accountability.

A third issue that reduces the representative nature of an MP is the electoral system of “first-past-the-post”. This system works well when the contest is between two major parties. However, in a multi-cornered election (such as in Uttar Pradesh, where four major parties contested most seats), a candidate may win with a minority of vote share. Indeed, in the last Lok Sabha elections, only 120 of the 543 winners got more than half of the votes in their constituency. One possible solution is to move to a list system, in which parties are allocated seats based on their national (or regional or state) vote share; they would then decide which person would occupy those seats. This system ensures that parliament is more representative of the vote share of various parties. However, there are several disadvantages. The system increases the relative power of party bosses. It also breaks the link between the representative and the voter, as there are no geographical constituencies. Some countries—for example, Sri Lanka, Germany and Scotland—have a mix of the two systems. Another solution is to have a two-stage election with a run-off between the top two candidates. France and Brazil

A majority of MPs work diligently but a vocal minority can disrupt Parliament.

use this system for presidential elections. However, this increases the cost of elections and delays the verdict.

The British parliament is considering a third system called the alternative vote. Every voter gives preferences for the candidates. If no candidate gets 50 percent of the first preference vote, the worst-performing candidate is eliminated and his second preference votes are distributed, and so on. This system retains geographical constituencies while making sure that the elected candidate figures in the top few preferences of a majority of voters.

Despite all these three disincentives, a majority of the MPs work diligently to understand and analyse the issues before Parliament. However, a vocal minority of MPs often disrupts parliament. Measures that increase the transparency and provide information about the activities of individual MPs could work to increase their accountability to their electors. While these may not yield all the desired results, it is important that there is a public debate on ways to improve the functioning of Parliament. ■



Photo: Ross Thomson

The country left behind

Understanding the effects of migration, with numbers

book review

Based on the 64th round of the National Sample Survey (NSS), a report on migration was released in India. According to the report, 28.5 percent of Indians were migrants—in other words, they no longer lived in their place of birth.

Both the World Development Report (WDR) and Human Development Report (HDR) for 2009 focused on migration, with the latter being more prominently centred on the topic. Migration needn't be a cross-border phenomenon. In fact, when Indians migrate, most of their movement is within the state, even within the district. However, data on intra-country migration is weak, and most discussion on the topic of migration—including Devesh Kapur's—is based on cross-country trends.

Traditionally, migration analyses and policy prescriptions have focused on a few topics. First, India has a demographic dividend and a labour cost advantage. The rest of the world, including China, is greying. India should tap into that vacuum—so, should we aim to achieve this through cross-border migration (multiplier benefits occur in host country) or outsourcing (multiplier benefits occur in India)?

Second, the developed countries, the World Trade Organisation (WTO) and regional trade agreements have a thrust on free cross-border movement of capital. This is myopic globalisation, unlike 19th century globalisation, which was driven by free movement of labour. Therefore, in negotiations, we should push for free cross-border movements of labour and highlight developed countries' policies of protectionism in hindering this.

Third, remittances have been important in managing balance of payments, a factor that has become less important post-1991, with capital

BIBEK DEBROY

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inflows and export of invisible services.

Fourth, the gain to developed countries due to the brain drain is obvious. However, aren't we subsidising developed countries like the United States? After all, there are explicit (and implicit) subsidies that have gone into, among other things, the education system. Should one impose a tax on human capital exports to recover this?

Fifth, a large chunk of international migration is not from developing countries to developed countries, but from developing countries to other developing countries. How should India handle the problem of in-migration from neighbouring countries from the subcontinent? Sixth, what has been the role of the diaspora in strengthening India's soft power status? Seventh, what has been the role of the returning diaspora in India's domestic IT sector's progress, or even in strengthening the civil society and NGOs?

Research on all of these strands has been conducted to date in bits and pieces. That apart, most research has concentrated on what happens in the receiving end (host country). Mr Kapur's book—and the published work that led up to it—focuses on the effects in the sending side (home country). In the conceptual-cum-analytical framework, four channels are identified, with an emphasis on the home country. These are the prospect channel, the absence channel, the diaspora channel, and the return channel. Here are quotes from the book to explain the purpose of the different channels:

"The *prospect channel* captures the way in which a prospect or an option of emigration affects the decision-making of households and whether they actually end up emigrating. The prospect of emigration affects decisions ranging from skill acquisition to the incentives for the exercise of voice to linguistic preferences."

"The *absence channel* focuses on the effects on 'those left behind' (TLBs) in the case when individuals actually leave... This is particularly important in a multi-ethnic society like India, where differential rates of emigration can alter its ethnic balance."

"The *diaspora channel* speaks [about] the impact of emigrants on the country of origin from their new position abroad."

"The *return channel* looks at how returning emigrants can affect the domestic political economy differently than if they had never left".

It has been said that an average economist looks at partial equilibrium, while a good economist looks at general equilibrium. With the caveats that this isn't

about intra-country migration, effects on the host country or cross-border elements in negotiations, this is as general an equilibrium as one can get. However, what is the point of a general equilibrium if you don't have the data for analysis?

Strictly speaking, Mr Kapur isn't an economist (he is an Associate Professor of Political Science at the

University of Pennsylvania), but he has done better than most economists. Over a period of time, he has built up not one, but five data sets. First, there is a one-shot (2003) survey of emigration from India, with

210,000 households. Second, there is a database of the Asian Indian population in United States, with 410,000 households. Third, there is a survey (2004) of 2,200 households, which is a subset of the second source. Fourth, there is an "elite" database, constructed from "Who's Who in India" and the civil service. Fifth, there is a survey of Indian diaspora NGOs in the United States. There is an inevitable US bias, but that apart, these

Devesh Kapur, *Diaspora, Development and Democracy, The Domestic Impact of International Migration from India*, Princeton University Press and Oxford, pp.(xv)+325, price not stated.

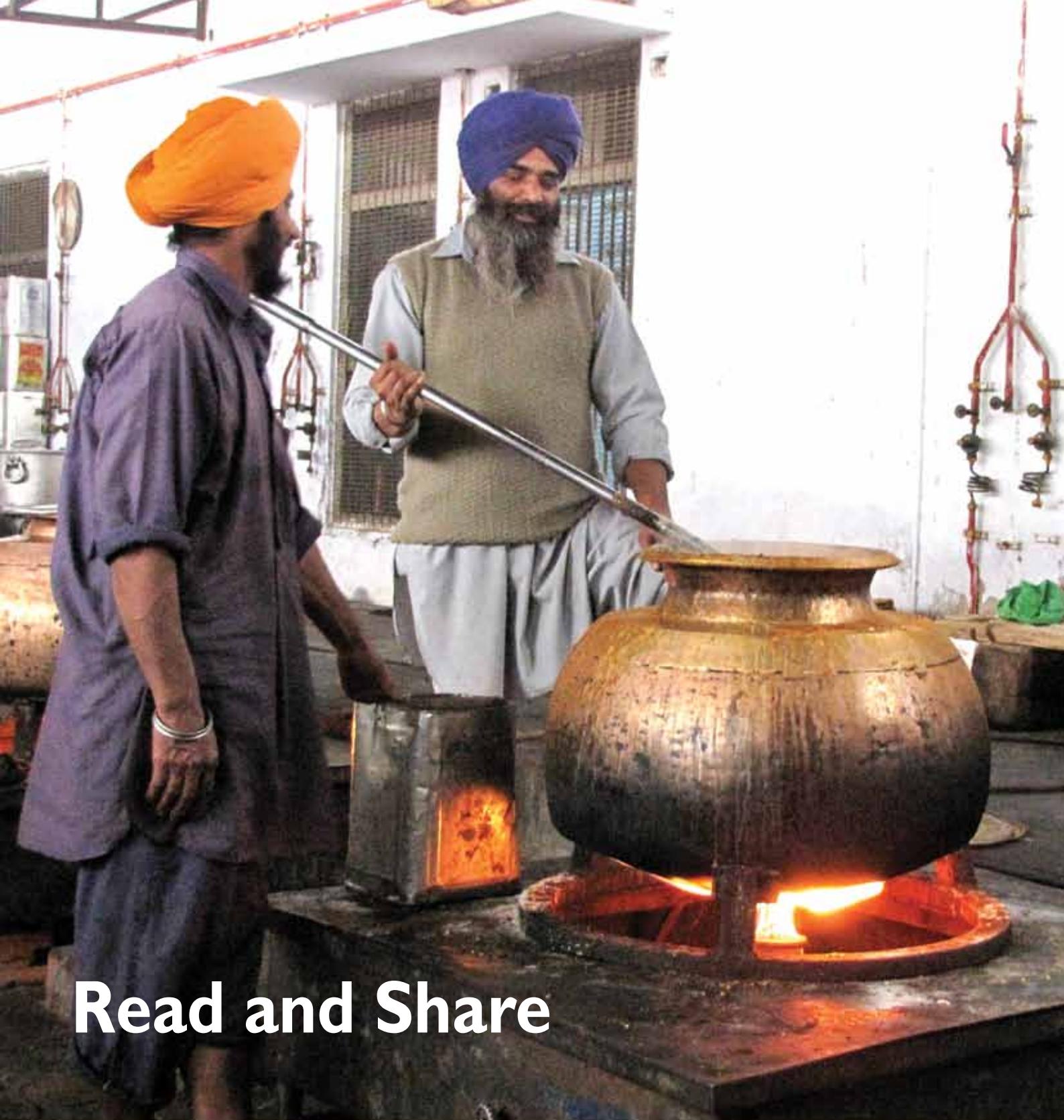
Rigorous work on migration is rare due to non-availability of data.

databases have been constructed and used ingeniously. They are critical to the volume, because rigorous work on migration is rare due to non-availability of data.

There are nine chapters, with four appendices that explain the databases. Chapter 1 is the introduction, while Chapter 2 sets out the analytic framework and research methodology. Chapter 9 is the conclusion.

The titles of the other chapters explain their purpose: Chapter 3 is on "Selection Characteristics of Emigration from India", Chapter 4 on "Economic Effects", Chapter 5 is on "Social Remittances: Migration and the Flow of Ideas", Chapter 6 is on "International Migration and the Paradox of India's Democracy", Chapter 7 is on "The Indian Diaspora and Indian Foreign Policy: Soft Power or Soft Underbelly", and Chapter 8 is on "Civil or Uncivil Transnational Society? The Janus Face of Long-Distance Nationalism".

The data throw up interesting insights. However, some chapters do seem to state the relatively obvious at some level. Seen from an overall perspective though, this is a great book that should be read by everyone—in particular by those who are interested in India and Indian policy-formulation. ■



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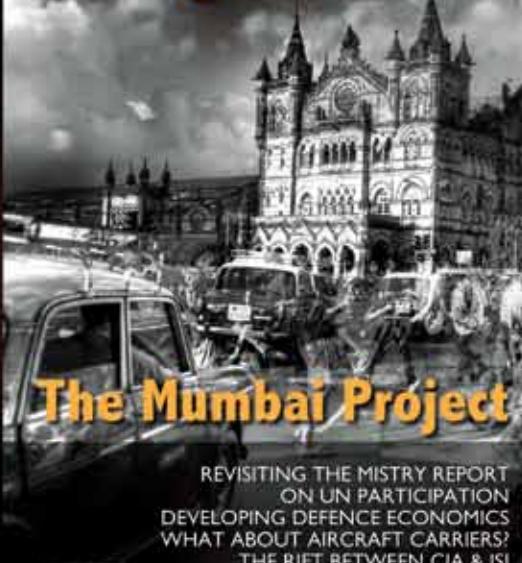
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